

Message Text

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TO AMEMBASSY LISBON PRIORITY

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E.O. 11652: GDS

TAGS: EFIN, EAID, PO, IMF

SUBJECT: PORTUGUESE FOREIGN EXCHANGE LIQUIDITY CRISIS

REF: LISBON 7486

1. WE WILL EXAMINE IMMEDIATELY AND ON INTERAGENCY BASIS
POSSIBILITIES FOR ASSISTING PORTUGUESE IN THEIR LIQUIDITY
CRISIS.

2. INITIAL REACTIONS ON SEVERAL ITEMS IN REFTEL FROM
WITHIN STATE ONLY ARE:

A. IMF. UNDERSTAND IMF EXECUTIVE BOARD WILL PROBABLY
APPROVE GOP OIL FACILITY DRAWING NEXT MONDAY, DECEMBER 22.
IMF STAFF HAS ALSO INFORMALLY ADVISED US THAT NEGOTIATIONS
ON A FIRST CREDIT TRANCHE DRAWING MAY BEGIN AFTER OIL
FACILITY LOAN IS WRAPPED UP.

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B. PL 480. LEGAL AND OTHER CONSTRAINTS ON PROGRAM
MAKE EXPANSION MOST UNLIKELY, AND IMPOSSIBLE WITHIN TIME
FRAME SOON ENOUGH TO BE RELEVANT TO A JANUARY OR
FEBRUARY LIQUIDITY CRISIS.

3. BELIEVE GOP COULD HELP BY MOVING QUICKLY ON SEVERAL
FRONTS:

A. ASK OECD TO SEND WORKING GROUP TO PORTUGAL TO
EXAMINE ECONOMIC CRISIS, PROSPECTS, RECOMMEND TO OECD
MEMBERS MEASURES TO HELP PORTUGAL.

B. GIVE USG ASSURANCES NECESSARY TO ALLOW PORTUGAL
TO QUALIFY IMMEDIATELY FOR GSP BENEFITS (I.E. PROMISE
TO LOWER TARIFFS ON SEVENTEEN ITEMS).

C. SEND EUROPEAN INVESTMENT BANK LIST OF PROJECTS
READY FOR IMMEDIATE FINANCING UNDER THE 150 MILLION UNITS
OF ACCOUNT LINE OF CREDIT THE EC HAS OFFERED PORTUGAL.

D. EMBARK ON IMMEDIATE TOURISM PROMOTION PROGRAM
WHILE IT STILL MAY DO SOME GOOD FOR THE 1976 SEASON.
POTENTIAL TRAVELERS NEED TO BE REASSURED PORTUGAL
IS SAFE AND PLEASANT TO VISIT, ECONOMICAL AS COMPARED
WITH OTHER TOURIST MECCAS.

4. GOP WILL HAVE TO REALIZE THAT ECONOMIC CONSEQUENCES
OF REVOLUTIONARY RHETORIC AND FERVOR NOW REQUIRE
DIFFICULT POLITICAL CHOICES LIKE ECONOMIC ONES IN
AUSTERITY PROGRAM. FOR EXAMPLE, RESTORATION OF PRIVATE
SECTOR ACTIVITIES -- ESSENTIAL FOR RETURN OF FOREIGN
INVESTMENT AND LENDING -- WILL REQUIRE REALISTIC RULES
OF THE GAME FOR PRIVATE INVESTORS. INVESTMENT CODE
AS NOW WRITTEN WILL ONLY DISCOURAGE FOREIGN CAPITAL,
INCLUDING THAT NEEDED TO RESUME OPERATIONS BY FORMERLY
PROFITABLE FIRMS. THE ECONOMIC COMMUNITY ALSO WATCHES
FOR COMPLETION OF THE NEW CONSTITUTION AND ITS IMPLICA-
TIONS FOR DOMESTIC PORTUGUESE ORDER AND BUSINESS
CONDITIONS. AS NOW DRAFTED, PARTS OF TITLE IV SEEM
TO ANNUL MANAGEMENT'S ABILITY TO RUN AN ECONOMIC
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ENTERPRISE EFFICIENTLY.

5. AS NOTED ABOVE, THESE ARE FIRST REACTIONS. WE
ACCEPT THAT THERE IS A SERIOUS PROBLEM DESERVING OF
SUCH SYMPATHETIC ASSISTANCE AS WE CAN PROVIDE, WHAT
THIS MAY BE WE DO NOT YET KNOW. NOR DO WE (OR
EUROPEANS) KNOW WHAT SECTORS ARE IN NEED OF MOST HRGENT
ATTENTION AND WHAT THE MOST EFFECTIVE REMEDIES MIGHT BE.

THUS, SUGGESTION 3A RE OECD STUDY MISSION, WHICH WE
UNDERSTAND HAS BEEN PENDING FOR SOME TIME, IS PARTICULAR-

LY URGENT AND PERTINENT.

6. SUGGESTION RE IMMEDIATE TOURISM PROMOTION CAMPAIGN
WAS GIVEN A DECEMBER 16 TO THEMIDO, WHO SAID HE WOULD
PURSUE IDEA DURING PRESENT LISBON CONSULTATIONS. KISSINGER

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